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AGREEMENT CONCERNING PROCEDURES
FOR THE IMPLEMENTATION OF UNITED STATES
ECONOMIC ASSISTANCE PROGRAMS AND SERVICES
PROVIDED IN THE COMPACT OF FREE ASSOCIATION
BETWEEN THE GOVERNMENT OF THE UNITED STATES AND
THE GOVERNMENT OF THE MARSHALL ISLANDS

In
Compilation of Agreements Between the Government of the United States and
the Freely Associated State of the Republic of the Marshall Islands (Washington:
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AGREEMENT CONCERNING PROCEDURES
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This Agreement is entered into by the Government of the United States and the Government of the Marshall Islands in recognition of their mutual desire to fulfill their obligations and responsibilities under the Compact of Free Association and its related agreements, particularly with respect to implementation of the economic assistance and United States programs and services provisions set forth in Title Two of the Compact of Free Association and in United States Public Law 99-239. The purpose of this Agreement is to record the procedures which are most efficient, economical and beneficial to the discharge of the obligations and responsibilities of each government. The Government of the United States and the Government of the Marshall Islands intend that this Agreement be construed and implemented in a manner consistent with the Compact.

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ARTICLE I

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Article I

Definition of Terms

1. Except as otherwise provided in this Agreement, the Definition of Terms set forth in Section 461 of the Compact is incorporated in full in this Agreement.

2. For the purposes of this Agreement, the following terms shall have the following meanings:

(a) "Current Account" means the current account funding defined in Section 461(k) of the Compact and as further defined and described in this Agreement.

(b) "Capital Account" means the capital account funding defined in Section 461(j) of the Compact and as further defined and described in this Agreement.

(c) "Adjustment Account" means funds provided to the Government of the Marshall Islands pursuant to Section 217 of the Compact.

(d) "Marshall Islands Development Authority" means an entity with juridical existence organized in accordance with the laws of the Government of the Marshall Islands, subject to the control of that government at least insofar as government accounts are concerned, subject to the provisions of the Compact and this Agreement to the extent specified in this Agreement and described, by inclusion of its organization, in the official overall economic development plan of the Marshall Islands.

(e) "Gross National Product Implicit Price Deflator" means a statistic published monthly by the Council of Economic Advisors of the Government of the United States in Economic Indicators. It is a weighted average of the detailed price indices used in the deflation of the United States Gross National Product. In each period, it uses as weights the composition of constant dollar output in that period. Changes in the implicit price deflator reflect both changes in prices and changes in the composition of output.

(f) "Annual Report" means the written statement made every year by the Government of the Marshall Islands in compliance with Section 211 of the Compact.

(g) "Audits" means financial, program and management audits, including determinations as to whether the Government of the Marshall Islands has met the requirements set forth in the Compact or its related agreements regarding the purposes for which grants or other assistance are to be used and determinations as to the propriety of the financial transactions of the Government of the Marshall Islands with respect to such grants or assistance.

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(h) "Fiscal Year" means the fiscal year of the Government of the United States commencing on the first day of October of one calendar year and ending on the thirtieth day of September of the following calendar year, or as may subsequently be provided by the laws of the United States.

(i) "Office of the Auditor General" means the independent audit agency established and organized in accordance with the Constitution of the Marshall Islands.

3. For purposes of this Agreement, any reference to Compact grants, programs and services, or other assistance shall include grants, programs and services, and other assistance provided for in Title Two of the Compact of Free Association as well as grants, programs and services, and other assistance provided for in U.S. Public Law 99-239.

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Article II

Economic Assistance Implementation
and Payment Procedures

1. Payment Procedures:

(a) After consultation with the Government of the United States, the Government of the Marshall Islands shall designate a bank or commercial financial institution organized in accordance with the laws of the United States or any state of the United States, or, subject to the approval of the Government of the United States, a bank or commercial financial institution organized in accordance with the laws of the Marshall Islands. The Government of the Marshall Islands shall notify the Government of the United States of its designation or affirm a previous designation, at the same time it certifies to the Government of the United States its annual allocation schedule in accordance with paragraph 1(b) of this Article. The bank or commercial financial institution so designated shall receive the transfer of Compact funds from the Government of the United States for deposit into the titled and numbered account of the Government of the Marshall Islands.

(b) The Government of the United States shall notify the Government of the Marshall Islands not later than 180 days prior to the first day of each fiscal year of the total Compact amounts expected to be available for the fiscal year, including the first transfer of funding in the adjustment account as provided in paragraph 4(a) of Article II of this Agreement. The Government of the Marshall Islands shall certify to the Government of the United States no later than 30 days prior to the first day of each fiscal year the amount of funds in the current account and the capital account requested for that fiscal year and the quarterly allocation for such funds made in accordance with paragraphs 2(c), 3(c) and 3(d) of this Article.

(c) The Government of the United States, upon receipt of a telegraphic or written request from the Government of the Marshall Islands, shall cause the transfer of current account, capital account and adjustment account funds to the account of the Government of the Marshall Islands at the designated bank or commercial financial institution. The transfer of funds shall occur in the form of cash, a United States Treasury check, electronic transfer or other appropriate method. A transfer of funds to the designated bank or commercial financial institution shall occur four times per year, on the first day of each fiscal quarter or as soon as procedurally possible thereafter, in accordance with the allocation schedule certified pursuant to paragraph 1(b) of this Article.

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(d) In the event the Government of the Marshall Islands does not expend or encumber the entire amount made available in any fiscal year, the Government of the Marshall Islands shall retain for its account the unexpended or unencumbered portion of the funds as specified in Section 218 of the Compact, in addition to the funds to be provided in subsequent years.

(e) In the event the Government of the Marshall Islands enters into a pledge and security agreement ("Pledge Agreement") under which it grants a security interest in any Compact funds received by the Government of the Marshall Islands or received by the bank or commercial financial institution so designated in paragraph 1(a) of this Article for the account of the Government of the Marshall Islands to a lender or lenders or such lenders' agent ("Agent") for the purpose of repaying any debt the Government of the Marshall Islands may incur, the Government of the Marshall Islands shall notify the Government of the United States of such security interest being granted in favor of the Agent by sending a notice to the Government of the United States signed by an authorized official together with copies of any documents which constitute the Pledge Agreement. Immediately upon receipt of such notice by the Government of the United States, the designation referred to in paragraph 1(a) of this Article shall become irrevocable and no new designation shall be made by the Government of the Marshall Islands without the written consent of the Agent. Absent such new designation and related consent of the Agent, the Government of the United States shall continue to make the transfers of Compact funds referred to in paragraph 1(c) of this Article to the currently designated bank or commercial financial institution. If such a security interest is created to facilitate the permitted uses of the capital account and current account as outlined in Section 2(d) and 3(e) of this Article, such security interest is in furtherance of the general purposes set forth in the Compact and its related agreements including this Agreement. For so long as a Pledge Agreement is in effect, this paragraph 1(e) shall remain in full force and effect notwithstanding any termination of this Agreement or any amendment or supplement to any other part of this Agreement and may be terminated, amended or supplemented only with the explicit and mutual consent of the Government of the United States and the Government of the Marshall Islands.

2. Current Account:

(a) All funding provided to the Government of the Marshall Islands pursuant to the provisions of the Compact shall be processed and allocated as funding in the current account unless otherwise specified in the Compact, this Agreement or by the mutual agreement of the Government of the United States and the Government of the Marshall Islands in individual cases.

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(b) The total current account for the Government of the Marshall Islands for any fiscal year shall be that amount so identified in the allocation schedule referred to in paragraph 1(b) of this Article. Any variance by the Government of the Marshall Islands from the levels of current account funding so identified in a given fiscal year shall be described, together with rationale therefor, in the annual report of that government required by Section 211 of the Compact.

(c) For each fiscal year, all funding processed as current account funding shall be allocated on a quarterly basis, with each quarterly allocation comprising at least 20 per cent and not more than 30 per cent of the total amount of such funds for the fiscal year in question. The Government of the Marshall Islands shall determine the percentage of the annual amount to be available for each quarterly allocation. The Government of the Marshall Islands may revise the quarterly allocation schedule of a fiscal year at any time not less than one fiscal quarter in advance of the quarter for which the revised allocation is certified. Annual current account funding specified in Section 216(a)(3) of the Compact may be transferred in total with the first quarterly allocation and shall not be counted in the percentages referred to in this paragraph.

(d) Current account funds shall be dedicated by the Government of the Marshall Islands to those uses having to do generally with the operation of the government and of government-sponsored programs. These uses shall include, but shall not be limited to, the payment of personnel for services rendered to the government, the purchase of goods and services, the rental, lease or time-limited use of goods and services, the operation and maintenance of government structures, buildings and facilities, including public works facilities, the payment of judgments and settlements, and the payment of principal, interest and premium, if any, on debts incurred in whole or in part for the uses referred to in this subparagraph or for the refunding, repayment or retirement of any debts previously incurred in whole or in part for such uses, including charges, expenses, fees or penalties incurred in connection with the refunding, retirement or repayment of such indebtedness or the reserve requirements necessary to refinance such indebtedness.

(e) The Government of the Marshall Islands shall dedicate the funding specified in Sections 213(a), 214, 215, 216 and 221(b) of the Compact and designated as current account funding to the uses described in paragraph 2(d) of this Article provided they are expended or encumbered in furtherance of the general purposes set forth in the Compact and its related agreements.

(f) The programs and services provided by the Government of the United States in accordance with the Compact shall be provided directly to the Government of the Marshall Islands by the

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Government of the United States and shall be provided subject to all criteria, standards, reporting requirements, auditing procedures and other rules and regulations applicable to such services and programs operating in the United States and its territories. For purposes of such programs and services, the Government of the Marshall Islands shall be treated as if it were a state or local government of the United States with respect to letters of credit, advances, reimbursements and draw-downs, except as otherwise mutually agreed.

3. Capital Account:

(a) The capital account for any fiscal year shall consist of those amounts provided pursuant to Section 211 of the Compact, and such other amounts, which are designated as funds in the capital account in the allocation schedule submitted in accordance with paragraph 1(b) of this Article.

(b) The Government of the Marshall Islands may transfer any portion of annual capital account funds to the Marshall Islands Development Authority. Such transfer shall occur at the beginning of the fiscal quarter in which the funds are received. Funds so transferred are to be used for the purposes specified in paragraph 3(e) of this Article. If such amounts are not so expended or encumbered within twelve months after the date of their initial transfer to the Marshall Islands Development Authority, the reasons for any deferral in the use of such funds shall be described in the next annual report required by Section 211 of the Compact.

(c) For each fiscal year, funding in the capital account that is to be obligated by the Government of the Marshall Islands to the Marshall Islands Development Authority shall be available in total for transfer by the Government of the United States on the first day of the first quarter of the fiscal year in question, or as soon as procedurally possible thereafter. Capital account funding not so obligated for a given fiscal year shall be allocated on a quarterly basis, with a percentage of at least 20 per cent and not more than 30 per cent of such amount available to be transferred on the first day of each fiscal quarter. The percentage and amount of capital account funds intended for obligation to the Marshall Islands Development Authority shall be specified in the allocation schedule certified to the Government of the United States in accordance with paragraph 1(b) of this Article. The Government of the Marshall Islands shall determine the percentage of the annual amount of funding in the capital account to be available for each quarterly allocation. The Government of the Marshall Islands may revise the quarterly allocation schedule of a fiscal year at any time not less than one fiscal quarter in advance of the quarter for which the revised allocation is certified.

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(d) In the course of any fiscal year, the Government of the Marshall Islands may redesignate funds in current account as funds in the capital account provided that it advises the Government of the United States of such redesignation, at least one fiscal quarter in advance of the fiscal quarter for which the funds being redesignated are available for expenditure or encumbrance. Justification for any such redesignation shall be described in the next annual report required by Section 211 of the Compact.

(e) The Government of the Marshall Islands may dedicate capital account funding to those uses having to do generally with the construction or major repair of capital infrastructure, the financing of public sector projects identified in the official overall economic development plans, or public sector participation in private sector projects which are so identified. These uses shall include, but shall not be limited to, the following:

- (1) Capital improvements, infrastructure construction, remodeling projects;
- (2) Development projects relating to productive activities;
- (3) Feasibility studies, sectoral or projects planning, architectural, engineering and design work for construction projects; updating development plans;
- (4) Technical assistance or matching funds for technical assistance for projects or activities which themselves would qualify for capital account expenditures;
- (5) Development loans to public and private recipients;
- (6) Energy source or alternative energy development, including construction, maintenance and conservation activities, and conservation revolving funds;
- (7) Reserve funds for telecommunications hardware purchase;
- (8) Manpower development projects and training development;
- (9) Emergency job programs of 2 years or less, which may be renewed;
- (10) Housing assistance programs, including loans and guarantees;
- (11) Contingency funds for matching or participatory financing associated with development projects;

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(12) Project administration costs, not to exceed 1.5 per cent of the total capital account for a given fiscal year;

(13) Sinking funds to finance capital account purposes; emergency funds;

(14) The acquisition by lease, purchase, or otherwise, of real property associated with capital account activities, including real property related to existing government facilities;

(15) The acquisition of major pieces of equipment, including but not limited to aircraft, vessels, construction equipment and communications facilities;

(16) Major repair of infrastructure and special maintenance programs not including normal operations and maintenance; and

(17) The payment of principal, interest and premium, if any, on debts incurred for the uses referred to in this subparagraph or for the refunding, repayment or retirement of any debts previously incurred for such uses, including charges, expenses, fees or penalties incurred in connection with the refunding, retirement or repayment of such indebtedness or the reserve requirements necessary to refinance such indebtedness.

4. Adjustment Account:

(a) For any given fiscal year, funding in the adjustment account is identified by multiplying that year's cumulative adjustment factor by the base amount for that year. That portion of funding in the adjustment account for a fiscal year that is identified by multiplying that year's base amount by that year's cumulative adjustment factor not including the adjustment factor for the immediately preceding fiscal year shall be available for transfer in total with that year's first quarterly allocation. That portion of funding in the adjustment account that is identified by multiplying that year's base amount by the adjustment factor for the immediately preceding fiscal year shall be transferred not later than the fourth quarter of the fiscal year in question. The transfer of adjustment account funds pursuant to this paragraph shall not affect the quarterly allocation percentages specified in paragraphs 2(c) and 3(c) of this Article.

(b) The Government of the Marshall Islands shall dedicate funding in the adjustment account in accordance with paragraphs 2(d) and 3(e) of this Article.

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ARTICLE III

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Article III

Budget Preparation, Development Planning and Annual Reports

1. Budget Preparation and Submission:

(a) The annual budget presentation of the President of the United States to the Congress of the United States shall record the resources necessary and sufficient to cover the amounts to be provided to the Government of the Marshall Islands by the Government of the United States under the Compact and its related agreements for the fiscal year in question including any programs and services to be provided under the Compact and any other funds he proposes to be provided.

(b) The Government of the Marshall Islands is not required to submit materials to the Government of the United States in support of requests for the appropriation of funds referred to in paragraph 1(a) of this Article, notwithstanding the language of Section 461(k) of the Compact. However, in order to assist the Government of the United States in its annual consideration of funding under the Compact, the Government of the Marshall Islands shall endeavor to supply the Government of the United States with materials and information in support of requests made for appropriation of the funds specified in the Compact. The Government of the Marshall Islands recognizes that such information will have the maximum utility to the United States Congressional appropriations process if it is supplied during the budget preparation cycle in advance of the fiscal year in question. The executive branch of the Government of the United States shall integrate, to the extent possible, materials and information supplied by the Government of the Marshall Islands which are pertinent to the appropriation of the funds specified in the Compact.

2. Economic Development Plans:

(a) In compliance with Section 211 of the Compact and in consideration of the provisions of section 103(b) of United States Public Law 99-239, the Government of the Marshall Islands shall submit to the Government of the United States for concurrence the official overall economic development plans specified in Section 211(b) of the Compact. Such plans shall be submitted at intervals no greater than every five years for the duration of the capital account funding under the Compact and shall identify, on a planning basis, the annual expenditure of the grant amounts specified for the capital account in Section 211(a) of the Compact.

(b) Amendments to the official overall economic development plans shall be identified in the annual reports to be submitted

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pursuant to Section 211(c) of the Compact. Such amendments are not subject to concurrence by the United States Government, but shall not cause such plans to be inconsistent with the requirements of the Compact and its related agreements.

(c) The Government of the United States shall review each plan in order to ascertain compliance and consistency with the requirements of the Compact and its related agreements, to assist the Government of the Marshall Islands in identifying and evaluating appropriate goals and objectives, and to determine what United States Government assistance might be made available to assist the Marshall Islands in implementing the plan. Should the Government of the United States determine that a plan submitted pursuant to Section 211(b) of the Compact does not comply with the requirements specified in the Compact and its related agreements, the Government of the United States may refer such matter to the conference and dispute resolution procedures under Article II of Title Four of the Compact. The Government of the Marshall Islands shall have an adequate opportunity to comment on the review of each plan before the Government of the United States renders its decision with respect to concurrence in such plan.

3. Annual Reports:

(a) In compliance with Section 211 of the Compact, the Government of the Marshall Islands shall provide to the President and the Congress of the United States by the first day of the third quarter of each fiscal year or as soon as practicable thereafter an annual report concerning the economic activities, progress and condition of the Marshall Islands in the fiscal year most recently expired. The annual reports should describe implementation of the Marshall Islands official overall economic development plan and should portray the relationship of the application of Compact funding to the achievement of the goals, objectives, and general and specific programs and projects set forth in that plan. Any amendments to that plan and the rationale for such amendments should be described in the annual reports.

(b) Specific topics to be addressed in the annual reports include, but are not limited to, the use of Compact funds for the fiscal year most recently expired and the relation of this use to the initial projected use as set forth in the Marshall Islands official overall economic development plan. The report shall also contain the information required by paragraph 3(d) of Article II of this Agreement.

(c) The report should provide comprehensive financial information which accounts for the use of all of the funds provided by the Government of the United States under the Compact. The

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annual reports may be organized and written in the form most convenient to the Government of the Marshall Islands and, with respect to financial information relating to Compact funding, shall conform, unless otherwise mutually agreed and to the extent relevant and practicable, to the standards of the Government Accounting Standards Board. The Government of the Marshall Islands shall indicate by appropriate notation any determinations with regard to the utilization of such standards.

(d) The Government of the United States and the Government of the Marshall Islands shall confer annually on the substance of the annual reports referred to in this paragraph. Such conferences shall take place not later than sixty days after receipt of the annual reports by the Government of the United States and shall, to the maximum degree possible, produce recommendations with respect to the subject matter to be addressed in future annual reports. Specific topics to be addressed in the annual conferences include all matters covered in the annual reports and the manner in which the Compact funding for the year under review has been expended.

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Article IV

Audit

1. Responsibility, Standards and Scope of Audit:

(a) The Government of the United States, acting pursuant to and in accordance with Section 233 of the Compact, has the authority and responsibility to audit the use of all Compact funding, including grants, programs and services, and other assistance, provided to the Government of the Marshall Islands. The Government of the United States is responsible for all costs attendant to the discharge of its audit responsibility, and shall reimburse the Government of the Marshall Islands for any costs directly attributable to the discharge of United States audit responsibilities.

(b) The Government of the United States, in consultation with the Government of the Marshall Islands, has the authority to and shall determine and implement procedures, including annual audit work plans, for periodic audits pursuant to Section 233 of the Compact. As determined by the Government of the United States, the Government of the United States shall perform the audits either directly or by using the services of independent certified public accountants or of the Office of the Auditor General of the Government of the Marshall Islands.

(c) In order to minimize duplication and to enhance the development of the Office of the Auditor General, the Government of the United States shall take into consideration the work of the Office of the Auditor General to the extent feasible. The Government of the United States and the Office of the Auditor General shall exchange information on their annual audit work plans and the Government of the United States shall take into consideration any comments the Government of the Marshall Islands may choose to make with respect to the annual audit work plan of the Government of the United States. The audits performed by the Government of the United States shall be used to enhance the internal audit capabilities of the Government of the Marshall Islands.

(d) The Government of the United States shall comply with all applicable provisions of the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, published by the Comptroller General of the United States, and the Single Audit Act of 1984 (United States P.L. 98-502), in the conduct of the audits performed pursuant to Section 233 of the Compact and this Agreement.

(e) For purposes of these audits, the only laws and regulations of the United States which are applicable are the Compact, its related agreements, this Agreement and such other instruments as may be made expressly applicable pursuant to mutual

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agreement by the Government of the United States and the Government of the Marshall Islands. In general, the applicable laws and regulations are those promulgated under the authority, and at the discretion, of the Government of the Marshall Islands and which relate in a material, substantial or direct way to that government's financial statements and operations. In the implementation of audits, the Government of the United States shall consult with the authorities of the Government of the Marshall Islands responsible for the interpretation of the laws and regulations of the government in order to make tests of compliance.

(f) The authority of the Government of the United States set forth in Compact Section 233 and this Article shall continue for at least three years after the last grant or element of assistance by the Government of the United States has been provided and expended.

2. Audit Schedule:

(a) A financial and compliance audit, within the meaning of the Single Audit Act of 1984 (United States Public Law 98-502), of the uses of Compact funding by the Government of the Marshall Islands shall be performed for each fiscal year during which Title Two of the Compact is in effect. The results of these audits shall be available not later than the beginning of the third fiscal quarter following the end of the fiscal year under review.

(b) The Government of United States may perform, on the basis of a need identified by the Government of the United States or upon the request of the Government of the Marshall Islands, economy and efficiency audits and program results audits of program and operational uses of Compact funding by the Government of the Marshall Islands.

3. United States Audit Officials:

(a) United States audit officials are the officials and employees of the Government of the United States who are responsible for the discharge of its audit responsibilities, including the Comptroller General of the United States and his duly authorized representatives. While present in the Marshall Islands for purposes of this Agreement, United States audit officials shall be accorded the status set forth in Article V of Title One of the Compact.

(b) United States audit officials shall provide the Government of the Marshall Islands with advance notice of the specific dates and nature of their visits prior to entering the Marshall Islands and shall show verifiable identification to officials of the Government of the Marshall Islands when seeking

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access to records. In the performance of their responsibilities under this Agreement, United States audit officials shall have due regard for the laws of the Marshall Islands and for the duties and responsibilities of the officials of the Government of the Marshall Islands and such officials of the Government of the Marshall Islands shall cooperate fully to the extent practicable with the United States audit officials to enable the full discharge of their responsibilities. Questions with respect to the identity or authorization of United States audit officials shall be referred for resolution to the United States Representative referred to in Article V of Title One of the Compact.

(c) The Comptroller General of the United States, and officials of the United States General Accounting Office acting on his behalf, shall have coextensive authority with the executive branch of the Government of the United States as provided in this Article of this Agreement and Compact Section 233. The United States audit officials from the United States executive branch shall avoid duplication between their audit programs and those of the United States General Accounting Office. The Government of the Marshall Islands shall cooperate fully to the extent practicable with the Comptroller General of the United States in the conduct of such audits as the Comptroller General determines necessary in accordance with this Article to enable the full discharge of his responsibilities.

4. Access to Records:

(a) The Government of the Marshall Islands shall provide United States audit officials with access, without cost and during normal working hours, to all records, documents, working papers, automated data and files which are relevant to the uses of Compact funding by that Government. To the extent that such information is contained in confidential official documents, including Cabinet decision documents, the Government of the Marshall Islands shall undertake to extract such of the information that is not of a confidential nature and make it available to the United States audit officials in the same manner as other relevant information or to provide such information from other sources.

(b) In order to reduce the level of interference in the daily operation of the activities of the Government of the Marshall Islands, the United States audit officials, in the annual consultations referred to in paragraph 1(c) of this Article, shall, to the extent practicable, inform the Government of the Marshall Islands of their need for information, including the type of information and its relation to their annual audit schedule. To the extent practicable, the Government of the Marshall Islands shall make available the information relevant to audits and requested by

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United States audit officials in a manner consistent with generally accepted accounting procedures that allows for the distinction of the grants, assistance and payments provided by the Government of the United States from any other funds of the Government of the Marshall Islands. Such information shall be used and returned as quickly as accurate audit testing and surveying allow.

(c) The Government of the Marshall Islands shall maintain records, documents, working papers, automated data and files, and other information regarding each such grant or other assistance for at least three years after such grant or assistance was provided.

5. Review of Audits:

United States audit organizations and officials, including the Comptroller General and his duly authorized representatives, shall provide the Government of the Marshall Islands with at least forty-five days to review and comment on draft audit reports prior to the release of the reports. The comments of the Government of the Marshall Islands shall be included, in full, in the final audit reports. Should a draft audit report be revised based on the comments of the Government of the Marshall Islands, that government shall have an additional period to review and comment on the report prior to its release.

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Article V

Special Categories of Funds

1. Division of funds for the Marshall Islands:

(a) The Government of the United States and the Government of the Marshall Islands may, at any time and by mutual agreement, require the United States audit officials to audit the functions and transactions of the fund manager of the Republic of the Marshall Islands Nuclear Claims Fund. Such audits may include the disbursement transactions of the fund manager.

(b) The Government of the Marshall Islands shall make provision for such audits in its contractual arrangements with the fund manager.

2. Division of Compact Section 216 Funds:

The grants to be provided pursuant to Section 216 of the Compact shall be divided between the Governments of the Marshall Islands and the Federated States of Micronesia in accordance with the Memorandum of Agreement entered into by the Presidents of the Marshall Islands and the Federated States of Micronesia on December 13, 1983.

3. Funds made available pursuant to Section 217 of the Compact:

(a) The Government of the United States shall adjust Compact account funding in accordance with Section 217 of the Compact and this paragraph. Calculations of the annual inflation adjustment shall use the beginning of fiscal year 1981 as the base year for:

(1) beginning the application of the inflation adjustment. On day one of FY 1981, one dollar was equal to one dollar for the purposes of applying Section 217.

(2) calculating the percentage change in the Gross National Product Implicit Price Deflator (GNP/IPD) index. Two-thirds of this percentage change, or seven per cent, whichever is less, shall be used as the annual inflation factor which directly adjusts that year's qualified financial grants identified in Title Two of the Compact.

(b) In year one -- 1981 -- the inflation adjustment factor will be two-thirds of the percentage change in the GNP/IPD index or seven per cent, whichever is less, from the last quarter of FY 1980 to the last quarter of FY 1981.

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(c) After year one, 1981, the annual change in the GNP/IPD index will use an additive percentage change formula for year two through year fifteen. The percentage change in the GNP/IPD index shall be calculated by the following formula: current calendar year third quarter GNP/IPD index minus previous calendar year third quarter GNP/IPD index divided by the 1981 base year index. The reference table for the GNP/IPD index calculations shall be Economic Indicators, prepared for the Joint Economic Committee by the Council of Economic Advisers, with GNP/IPD estimates provided in the table, "Implicit Price Deflators for Gross National Product" (1982=100; quarterly data seasonally adjusted). For purposes of calculating both percentage changes in the GNP/IPD from the base year (1981), the table will have to be normalized to 1981=100.

(d) For purposes of illustration, if the percentage change in the GNP/IPD index is equal to 3 per cent each year starting with the base year, the calculations during the first five years from the base year would be in accordance with the following table:

TABLE I

KEY:

A = Year Number
 B = Calendar Year
 C = GNP/IPD using third quarter of CY 1981 as base
 D = Percentage change in GNP/IPD from base year
 E = Two-thirds of the percentage change in GNP/IPD
 F = Cumulative Adjustment Factor

A	B	C	D	E	F
1	1981	103	.03	.02	.02
2	1982	106	.03	.02	.04
3	1983	109	.03	.02	.06
4	1984	112	.03	.02	.08
5	1985	115	.03	.02	.10
6	1986	118	.03	.02	.12

If FY 1986 is the first year of the effectiveness of the Compact, that year's total funding in the adjustment account would be the product of that year's base amount and 12 per cent.

(e) Transfer of funding in the adjustment account for any fiscal year shall be made in accordance with paragraph 4(a) of Article II of this Agreement.

(f) The Government of the United States shall provide the adjustment amount for the last fiscal year of the effectiveness of Title Two of the Compact in accordance with the method set forth in this Article and without regard to whether the Compact or its related agreements or this Agreement are still in effect at the time the adjustment amount is made available.

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ARTICLE VI

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Article VI

Effective Date, Amendment and Duration

1. This Agreement shall come into effect on a date that the Government of the United States and the Government of the Marshall Islands confirm is the date of completion of both of their respective applicable statutory processes.
2. The Agreement may be amended at any time by mutual consent of the Government of the United States and the Government of the Marshall Islands. During the pendency of any Pledge Agreement as referred to in paragraph 1(e) of Article II, the Government of the Marshall Islands is otherwise bound neither to propose nor consent in any amendment to or termination of paragraph 1(e) of Article II without the prior written consent of the Agent which is a party to such Pledge Agreement, a copy of which shall be furnished to the United States Government upon its request.
3. Disputes arising between the Government of the United States and the Government of the Marshall Islands under the terms of this Agreement shall be resolved in accordance with the procedures set forth in Article II of Title Four of the Compact.
4. The Agreement shall remain in full force and effect until terminated by mutual consent, or until the expiration or termination of the provisions of Title Two of the Compact, whichever occurs first. Paragraph 3(f) of Article V of this Agreement shall remain in full force and effect until all funds specified therein have been transferred. The authority of the Government of the United States set forth in Article IV shall remain effective in accordance with the provisions of that Article.
5. This Agreement may be accepted, by signature or otherwise, by the Government of the United States and the Government of the Marshall Islands. Each Government shall possess an original English language version.

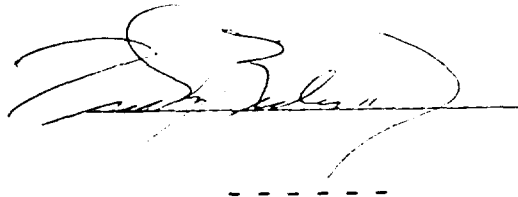
IN WITNESS WHEREOF, the undersigned, duly authorized, have signed this Agreement Concerning Procedures for the Implementation of United States Economic Assistance, Programs and Services Provided in the Compact of Free Association which shall come into effect in accordance with its terms between the Government of the United States and the Government of the Marshall Islands.

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AGREEMENT CONCERNING PROCEDURES
FOR THE IMPLEMENTATION OF UNITED STATES
ECONOMIC ASSISTANCE, PROGRAMS AND SERVICES
PROVIDED IN THE COMPACT OF FREE ASSOCIATION
BETWEEN THE GOVERNMENT OF THE UNITED STATES AND
THE GOVERNMENT OF THE MARSHALL ISLANDS

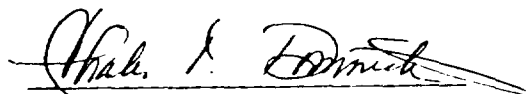
DONE AT Honolulu, Hawaii, THIS 21st DAY
OF July, ONE THOUSAND, NINE HUNDRED AND EIGHTY-SIX

FOR THE GOVERNMENT
OF
THE UNITED STATES OF AMERICA



DONE AT Honolulu, Hawaii, THIS 21st DAY
OF July, ONE THOUSAND, NINE HUNDRED AND EIGHTY-SIX

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OF
THE MARSHALL ISLANDS



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